Office of Multifamily Housing Assistance Restructuring

Deal Profile: *Small Municipality, Market Rents unable to support Operating Expenses, Rehab Needs in excess of $4,000 per unit, Exception Rents, Modified Transfer of Physical Assets.*

Overview
OMHAR has developed policies and procedures to provide Exception Rents when the reduction from current Contract Rents to Market Rents does not generate sufficient Net Operating Income to cover Operating Expenses and the Reserve for Replacement requirements.

Characteristics
This transaction involves a 30-unit family property, built in 1978, in a small Mid-western municipality where preservation of assisted housing was paramount.   The asset was in overall fair condition with a number of immediate replacement needs. Market Rents could not support operating expenses and the property needed an infusion of funds to address the immediate and long term physical needs.

The Solution
A Mark-to-Market payment of Claim on the FHA insured first was combined with Exception Rents that increased the income stream and supported a new 223(a)(7) first mortgage. This restructure finances rehabilitation needs, covers projected operating expenses and builds a Reserve for Replacement fund that addresses future capital improvement needs. A modified Transfer of Physical Assets occurred where the existing general partner withdrew and the new general partner came in ready to close on the Mark-to-Market restructure.

Particulars included:
- Exception Rents at 139% of Market, 118% of FMR, and 108.1% of Current Contract rents
- $124,000, ($4,132 per unit,) for Rehabilitation Needs,
- Reserve for Replacement Initial Deposit $46,000, ($1,500 per unit), and new annual deposit of $600 per unit,
- Affiliate of Management Agent became new general partner.

The Consequences
Affordable housing was preserved in a market where it is greatly needed, but was in danger of future failure because market rents could not support the needs of the property.

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